



0000111799

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2010 MAY 19 P 3:46

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM/AGUA
FRIA WASTEWATER DISTRICT, ITS SUN CITY
WASTEWATER DISTRICT AND ITS SUN CITY
WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

SUMMARY OF DIRECT TESTIMONY
OF MICHAEL L. ARNDT

Arizona Corporation Commission

DOCKETED

MAY 19 2010

DOCKETED BY

mm

EXECUTIVE SUMMARY – DIRECT TESTIMONY

Michael L. Arndt testifies that:

I am appearing on behalf of the Anthem Community Council (“Anthem”). Anthem has intervened in this proceeding on behalf of over 8,800 of its residents that are water and wastewater customers of Arizona American Water Company (“AAWC” or “Company”). The purpose of my testimony is to address the concerns expressed by Company witness James M. Jenkins regarding Anthem witness Mr. Dan L. Neidlinger’s ratable plant transfer proposal.

The Company has proposed major increases in its water and wastewater rates based on a calendar 2008 test year, due in large part to the refunding of \$20.2 million of Advances In Aid of Construction (“AIAC”) to Pulte Homes in March 2008. The AIAC payments represent an abnormal and extraordinary event which needs to be addressed for ratemaking purposes. However, for Anthem residents, the Company’s requests will result in substantial increases in average residential water and average residential wastewater bills. Anthem witness Neidlinger proposes to mitigate the resulting rate shock by deferring the ratemaking recognition of the water and wastewater net plant associated with the 2008 Pulte refund of \$20.2 million. Mr. Neidlinger proposes that the “deferred” amounts be transferred into plant in service ratably over the five year period of 2009 through 2013. Neidlinger’s plan properly addresses and mitigates the problem of rate shock.

Statement of Financial Accounting Standards.

Company witness Jenkins opposes Neidlinger’s proposal because he believes that it would require the Company to report a loss for financial reporting purposes and the plan does not comply with the Financial Accounting Standards Board’s (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 92.

However, FASB’s SFAS 92 relates to phase-in plans concerning plant completed, or plant on which substantial physical construction had been performed, before January 1, 1988. In addition, SFAS 92 does not address refunds relating to prior AIACs. SFAS 92, therefore, does not apply in this case, and to my knowledge, there have been no prior water or wastewater rate cases or

1 utility commission decisions in the United States which SFAS 92 has been used as a reason to
2 reject or decline to adopt a ratable plant transfer plan such as proposed by Neidlinger.

3 Mr. Jenkins also argues that SFAS 90 provides guidance on cost disallowances. However,
4 SFAS 90 was issued in December 1986 to address the abandonments of plants and disallowances
5 of costs of electric utility plants. In that regard, SFAS 90 does not address refunds relating to prior
6 AIACs. In addition, the Company has not abandoned any water or wastewater plant in this case;
7 and Anthem's ratable plant transfer proposal does not contemplate or require a disallowance of
8 utility plant. SFAS 90, therefore, does not apply in this case, and to my knowledge, there have
9 been no prior water or wastewater rate cases or utility commission decisions in the United States
10 which SFAS 90 has been used as a reason to reject or decline to adopt a ratable plant transfer plan
11 such as proposed by Neidlinger.

12 Financial Reporting.

13 The Company is a wholly-owned subsidiary of American Water Corporation ("AWC").
14 AWC is the largest investor-owned water and wastewater utility company in the United States.
15 AWC is the parent company for nineteen state subsidiaries, including the Company. In 2009,
16 American Water Corporation reported total revenues of \$2,445,000,000 and total net plant of
17 \$10,500,000,000.

18 If AWC elected to report some type of "loss" for financial reporting purposes in its consolidated
19 financial statements related to a Commission adoption of Anthem's ratable plant transfer plan in
20 the Company's current case, AWC would fully disclose the "loss" for financial reporting purposes
21 in its notes to its consolidated financial statements. If properly reported, the notes would not
22 suggest that the Commission had "disallowed" the 2008 \$20.2 million refund payment to Pulte
23 Homes, nor would the plant be characterized as "abandoned."

1 ORIGINAL and fifteen (15) copies of the
2 foregoing filed this 19th day of May, 2010, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, AZ 85007

7 COPY of the foregoing mailed
8 this 19th day of May, 2010, to:

9 Teena Wolfe, Administrative Law Judge
10 Hearing Division
11 Arizona Corporation Commission
12 1200 W. Washington Street
13 Phoenix, AZ 85007

14 Thomas H. Campbell
15 TCampbell@LRLaw.com
16 Michael T. Hallam
17 MHallam@LRLaw.com
18 Lewis and Roca, LLP
19 40 N. Central Avenue
20 Phoenix, AZ 85004-4429

21 Daniel Pozefsky
22 DPozefsky@azruco.gov
23 RUCO
24 1110 W. Washington St., Suite 220
25 Phoenix, AZ 85007

26 Janice M. Alward, Chief Counsel
27 JAlward@azcc.gov
28 Legal Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007-2927

Steve Olea, Director
SOlea@azcc.gov
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Lyn Farmer
Lfarmer@azcc.gov
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

- 1 Robert J. Metli
rmetli@swlaw.com
- 2 Jeffrey W. Crockett
jcrockett@swlaw.com
- 3 Snell & Wilmer LLP
400 E Van Buren
4 Phoenix, AZ 85004-2202
Attorneys for the Resorts
- 5 Michael Patten
6 mpatten@rdp-law.com
Roshka DeWulf & Patten PLC
7 400 E Van Buren Suite 800
Phoenix, AZ 85004-2262
- 8 Greg Patterson
9 gpatterson3@cox.net
916 W. Adams, Suite 3
10 Phoenix, AZ 85007
Attorneys for WUAA
- 11 W.R. Hansen
12 jpbillscwaz@aol.com
12302 W. Swallow Drive
13 Sun City West, AZ 85024
- 14 Bradley J. Herrema, Esq.
BHerrema@bhfs.com
15 Brownstein Hyatt Farber Schreck, LLP
21 E. Carrillo Street
16 Santa Barbara, CA 93101
Attorneys for Anthem Golf and Country Club
- 17 Norman D. James, Esq.
18 njames@fclaw.com
Fennemore Craig
19 3003 N. Central Avenue, Suite 2600
Phoenix, AZ 85012
20 Attorneys for DMB White Tank, LLC
- 21 Marshall Magruder, Esq.
mmagruder@earthlink.net
22 P.O. Box 1267
Tubac, AZ 85646-1267
- 23 Andrew M. Miller, Esq.
24 amiller@paradisevalleyaz.gov
Town Attorney
25 6401 E. Lincoln Drive
Paradise Valley, AZ 85253
26 Attorneys for Town of Paradise Valley
- 27
- 28

1 Joan S. Burke, Esq.
joan@jsburkelaw.com
2 Law Office of Joan S. Burke
1650 N. First Avenue
3 Phoenix, AZ 85003
Attorneys for Mashie, LLC, dba Corte Bella Golf Club
4
5 Larry D. Woods
15141 W. Horseman Lane
Sun City West, AZ 85375
6
7 Philip Cook
10122 W. Signal Butte Circle
Sun City, AZ 85373
8
9 Dan Neidlinger
Neidlinger & Associates, Ltd.
3020 N. 17th Drive
10 Phoenix, AZ 85012

11 
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28